

## Message Text

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ACTION EA-12

INFO OCT-01 EUR-12 ISO-00 CIAE-00 PM-05 H-01 INR-10

L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11

EB-08 COME-00 TRSE-00 OMB-01 ACDA-12 AID-05 /104 W

-----114911 170855Z /23

R 170738Z AUG 78

FM AMEMBASSY CANBERRA

TO SECSTATE WASHDC 4065

SECDEF WASHDC

JCS WASHDC

CNO WASHDC

CSAF/WASHDC

C/S ARMY WASHDC

CINCPAC HONOLULU

AMEMBASSY WELLINGTON

AMEMBASSY PORT MORESBY

AMEMBASSY SUVA

AMEMBASSY JAKARTA

AMEMBASSY SINGAPORE

AMEMBASSY KUALA LUMPUR

AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 1 OF 2 CANBERRA 6511

EO 11652: GDS

TAGS: MILI AS

SUBJECT: DEFENSE SPENDING IN THE 1978/79 AUSTRALIAN BUDGET

1. SUMMARY: THE AUSTRALIAN DEFENSE BUDGET FOR THE 1979 FINANCIAL YEAR IS PROJECTED AT A\$2,501 MILLION, A 5.2 PERCENT INCREASE IN AUSTRALIAN DOLLARS- BUT A "REAL" INCREASE (AFTER FACTORING FOR INFLATION) OF ONLY ABOUT ONE PERCENT. (THE AUSTRALIAN DOLLAR IS CURRENTLY WORTH ABOUT US(1.17). IN GDP TERMS, IT REPRESENTS AN INCREASE FROM 2.5 PERCENT LAST YEAR TO ABOUT 2.6 PERCENT NEXT YEAR, BUT A REDUCTION AS A PERCENTAGE OF TOTAL GOVERNMENT OUTLAY

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FROM 8.9 PERCENT LAST YEAR TO ONLY ABOUT 8.7 PERCENT NEXT YEAR. IN PRACTICAL TERMS, IT VIRTUALLY PRECLUDES ANY MAJOR EXPENDITURE FOR CAPITAL EQUIPMENT SUCH AS NEW FIGHTER AIRCRAFT FOR THE RAAF OR A REPLACEMENT FOR THE RAN AIRCRAFT CARRIER "HMAS MELBOURNE." THERE IS TO BE A SLIGHT INCREASE IN UNIFORMED MANPOWER, TO BE PAID FOR IN PART BY A SLIGHT DECREASE IN ADOD CIVILIANS. END

SUMMARY.

2. OF THE TOTAL DEFENSE ALLOCATION OF A\$2.5 BILLION, BY FAR THE LARGEST AMOUNTS GO FOR MANPOWER COSTS (A\$1.3 BILLION OR 52 PERCENT OF THE TOTAL) AND DEFENSE EQUIPMENT (A\$0.7 BILLION). THE REMAINDER IS DIVIDED BETWEEN DEFENSE FACILITIES (A\$144 MILLION), DEFENSE-RELATED INDUSTRIAL CAPACITY (A\$93 MILLION), DEFENSE SCIENCE (A\$91 MILLION), DEFENSE COOPERATION WITH MALAYSIA, SINGAPORE, INDONESIA, AND PAPUA NEW GUINEA (A\$25 MILLION); GENERAL ADMINISTRATIVE EXPENDITURES (A\$209 MILLION) AND OTHER COSTS.

3. THERE HAVE BEEN SOME SIGNIFICANT SHIFTS OF EXPENDITURE FOR MANPOWER FOR EACH OF THE THREE SERVICES. IN ABSOLUTE DOLLAR FIGURES, THE NAVY GOT ABOUT A 12 PERCENT INCREASE IN ITS MANPOWER BUDGET; THE ARMY ABOUT 3.5 PERCENT, AND THE AIR FORCE ABOUT 4 PERCENT. THESE SHOULD BE CORRECTED FOR INFLATION, WHICH IS RUNNING AT ABOUT 7.9 PERCENT; THUS IN REAL TERMS, ONLY THE NAVY HAS GOTTEN A REAL INCREASE. THE TOTAL NUMBER OF AUTHORIZED UNIFORMED MANPOWER RISES BY 220 SERVICE PERSONNEL FOR A TOTAL OF 72,515 (IT SHOULD BE NOTED THAT ADOD'S ACTUAL "ON BOARD" MILITARY STRENGTH IS ABOUT 3 PERCENT BELOW AUTHORIZED LEVELS; OUR MOST RECENT 1977 FIGURES SHOW 72,295 AUTHORIZED AND 70,014 ON BOARD FOR ALL THREE  
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SERVICES), BUT THE NUMBER OF CIVILIAN ADOD EMPLOYEES IS TO BE CUT BY 425.

4. THE SHIFTS FOR DEFENSE EQUIPMENT ARE EVEN MORE PRO-  
NOUNCED. THERE WAS AN APPROXIMATE 12 PERCENT INCREASE IN A  
ALLOCATIONS FOR DEFENSE EQUIPMENT. THE NAVY GOT THE LION'S  
SHARE, A WHOPPING 105 PERCENT INCREASE BUT A GOOD PORTION  
OF THIS IS EXPECTED TO BE ABSORBED BY COST INCREASES FOR  
THE FFG-7 FRIGATES ON ORDER IN THE UNITED STATES. MOST OF  
THE BALANCE WILL GO TOWARD THE 15 AUSTRALIAN BUILT PATROL  
BOATS AND FITTING OUT THE SUPPORT VESSEL HMAS TOBRUK.  
THE ARMY TOOK A 32 PERCENT CUT, THIS IS ACCOUNTED FOR BY  
NO NEW MAJOR EQUIPMENT PURCHASES (ARMORED AND COMBAT  
VEHICLES AND ARTILLERY) AND A PHASING DOWN OF LEOPARD TANK  
AND RAPIER GROUND-TO-AIR MISSILE UNIT PROCUREMENT. THE  
RAAF HAS TAKEN A 28 PERCENT CUT, WHICH VIRTUALLY RULES OUT  
ANY QUESTION OF NEW FIGHTER AIRCRAFT PURCHASES TO REPLACE  
ITS AGING MIRAGES; THE AMOUNT AVAILABLE WILL GO MOSTLY  
TOWARD PAYING FOR THE BALANCE OF ITS 12 HERCULES C-130H'S  
AND 10 ORION P-3C'S ALREADY ORDERED.

5. OF THE A\$25 MILLION FOR DEFENSE COOPERATION, A\$3.6

MILLION WILL GO TO MALAYSIA, A\$0.5 MILLION TO SINGAPORE, A\$6.9 MILLION TO INDONESIA, AND A\$12.0 MILLION TO PAPUA NEW GUINEA, OR AN AVERAGE OF ABOUT FIVE PERCENT LESS THAN LAST YEAR (ABOUT 25 PERCENT LESS FOR PAPUA NEW GUINEA). THE RELATIVELY LARGE REDUCTION FOR PAPUA NEW GUINEA REFLECTS THE PROGRESSIVE REDUCTION IN NUMBERS OF MEN AND SUPPORT COSTS FOR AUSTRALIAN FORCES IN PNG BUT COVERS PROVISION OF NOMAD LIGHT TRANSPORT AIRCRAFT AND COMMUNICATIONS EQUIPMENT.

6. THE PRACTICAL IMPLICATIONS OF THIS DEFENSE BUDGET, ANOTHER IN A LONG LINE OF SEVERE POST-VIETNAM DEFENSE BUDGETS, ARE THAT THE AUSTRALIAN SERVICES FACE AT LEAST ONE MORE YEAR OF THIN GRUEL, AND, ASSUMING THE ECONOMY  
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DOES NOT SIGNIFICANTLY IMPROVE DURING THE COMING YEAR, PROBABLY THREE MORE, SINCE IF THE ECONOMY REMAINS ESSENTIALLY STAGNANT, IT WILL BE DIFFICULT TO RATIONALIZE SUBSTANTIAL INCREASES NEXT YEAR, AND THE YEAR AFTER THAT IS AN ELECTION YEAR. IT SHOULD BE ANTICIPATED THAT THIS RATHER DREARY PICTURE WILL HAVE A CORRESPONDING EFFECT UPON SERVICE MORALE, ALREADY SHOWING UP IN THE NUMBERS OF CAREER OFFICERS OPTING EITHER FOR EARLY RETIREMENT OR SIMPLY LEAVING IN ORDER TO TAKE BETTER JOBS ELSEWHERE. THE ONLY PRACTICAL DETERRENT TO THE LATTER COURSE IS AUSTRALIA'S RECORD HIGH UNEMPLOYMENT WHICH MANY OBSERVERS EXPECT, IF

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ACTION EUR-12

INFO OCT-01 EA-10 ISO-00 CIAE-00 PM-05 H-01 INR-10  
L-03 NSAE-00 NSC-05 PA-01 SP-02 SS-15 ICA-11  
EB-08 COME-00 TRSE-00 OMB-01 ACDA-12 AID-05 /102 W  
-----114950 170855Z /23  
R 170738Z AUG 78  
FM AMEMBASSY CANBERRA  
TO SECSTATE WASHDC 4066  
SECDEF WASHDC  
JCS WASHDC

CNO WASHDC  
CASF WASHDC  
C/S WARMY WASHDC  
CINCPAC HONOLULU  
AMEMBASSY WELLINGTON  
AMEMBASSY PORT MORESBY  
AMEMBASSY SUVA  
AMEMBASSY AJAKARTA  
AMEMBASSY SINGAPORE  
AMEMBASSY KUALA LUMPUR  
AMEMBASSY LONDON

C O N F I D E N T I A L SECTION 2 OF 2 CANBERRA 6511

ANYTHING, TO GROW marginally worse during the coming year. But it will also force the Australian defense establishment to rethink its defense posture, which could have some important implications for the ANZUS alliance. Prime among these is the gradual deterioration in RAAF's performance as its inventory grows older and the amount of flying time permitted is cut. The navy will almost certainly be handed the increased coastal surveillance duties resulting from Australia's having recently extended its maritime zone to 200nm; how it chooses to do this (whether by fewer larger, costlier ships and planes, or with more numerous less confidential

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EXPENSIVE PATROL VESSELS AND SMALLER PATROL AIRCRAFT) AND HOW MUCH ADDITIONAL FUNDING IT CAN GET FROM THE GOVERNMENT FOR EQUIPMENT PURCHASES WILL BE AN IMPORTANT DETERMINANT IN WHETHER THE RAN CONTINUES TO HAVE A SIGNIFICANT "BLUE-WATER" CAPABILITY IN THE FUTURE; THE PROSPECTS FOR REPLACING HMAS MELBOURNE WITH ANOTHER CARRIER HAVE, HOWEVER, VISIBLY DIMMED. ALTHOUGH THERE IS RENEWED SPECULATION THAT THE GOA MAY HAVE TO TAKE A LOO AT SCRAPPING THE PROPOSED THIRD FFG-7 FAST FRIGATE ON ORDER IN US YARDS IN SEATTLE, IT IS OUR BELIEF THAT FOR THE TIME BEING THIS PROJECT REMAINS SECURE.

7. ALL IN ALL, AUSTRALIA'S DEFENSE ESTABLISHMENT FACES A BLEAK IMMEDIATE FUTURE, WITH LITTLE HOPE OF MUCH IMPROVEMENT IN THE MEDIUM-TO-LARGER TERM. FROM A US STANDPOINT, THE ONLY SAVING GRACE IS THAT AUSTRALIAN DEFENSE FORCES HAVE COME OFF RELATIVELY LIGHTLY IN WHAT WAS OTHERWISE A "HORROR" BUDGET; THAT THE GOA HAS RE-AFFIRMED ALL ITS STANDING DEFENSE OBJECTIVES, AND THAT IT HAS INDICATED ITS WILLINGNESS TO CONTINUE ITS PROGRAMS WITH MALAYSIA, SINGAPORE, INDONESIA, AND PAPUA NEW GUINEA AT A TIME WHEN THERE MUST HAVE BEEN CONSIDERABLE

PRESSURE TO CUT THEM EVEN FURTHER.

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## Message Attributes

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